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SUBJECT: CONGEN HEARS PITCH FOR GREATER US INVESTMENT:
YANBU OPEN FOR BUSINESS

1. (SBU) Summary. During a January 28 all-day visit to the Red Sea coastal city of Yanbu, ConGen Jeddah delegation (CG, ECON, FCS, PD) were warmly welcomed by local business and government leaders who encouraged us to carry the message to American industry that Yanbu is open for business where U.S. foreign direct investment (FDI) is concerned. The rapidly expanding industrial and port city, graced by a newly-elected board at the local Chamber of Commerce and run by the pseudo-corporate Royal Commission for Jubail and Yanbu, is willing to provide cheap inputs to foreign investors able to bring the technologies they hope to add to the soon-to-be-completed Yanbu II expansion project. First on their list of priorities is an automobile tire factory. Nonetheless, as evidenced by the recent hold put on a new ConocoPhillips refinery project, the declining price of oil may ratchet down Yanbu's growth. End Summary.

Convergence of industry-friendly conditions

2. (SBU) Less than a three-hour drive over a nearly completed modern highway heading north from Jeddah, Yanbu remains one of Saudi Arabia's industrial success stories. Founded 30 years ago by royal decree, Yanbu, and its much larger sister city Jubail on the eastern side of the country, was built to add value to the Kingdom's oil exports via the creation of downstream petroleum products and petrochemicals. Featuring a port with 50 kilometers of linear frontage (making it the largest in the Middle East), offshore terminals, 1200 kilometers of pipeline reaching across the Kingdom, and a new expansion project targeting the development of 50 new basic and secondary industries, Yanbu is all about heavy industry. According to the Chamber of Commerce, Yanbu is currently responsible for 25% of national industrial output and 22% of foreign industrial investment. Its port is second only to Jeddah in terms of number of ships serviced, and its airport handles 25 flights per week. The Saudi Aramco refinery in Yanbu currently processes 225,000 barrels per day (bpd). Add to that a pleasant climate, decent housing, good educational facilities, and reasonable proximity to the futuristic King Abdullah Economic City, as yet under construction, and it is easy to understand why Yanbu attracts a high-quality workforce. Still, by Saudi urban standards, with a mere 112,000 living in Yanbu Industrial City and perhaps 300,000 in the whole governorate, it remains small and simple to navigate. While Yanbu was the site of a May 2004 terrorist attack against Western workers at the offices of oil contractor ABB Lummus in which two Americans were killed, locals assured us that this was an isolated incident, "two crazy brothers," and that security is now reliable. (Note: ConGenOffs indeed observed security forces throughout the area.)

13. (U) The Royal Commission (RC) runs all aspects of Yanbu in much the same way that municipal governments run the traditional Saudi cities of Jeddah and Riyadh. The Royal Commission reports directly to its Chairman in Riyadh, Prince Saud ibn Abdullah ibn Thunayyan, who reports directly to King Abdullah and coordinates with ministries where necessary, for example, with respect to education. The scope of its authority gives the Commission unique control over urban and industrial planning and development, a tool it is using prodigiously as it more than doubles the acreage as well as the economic output of Yanbu via the construction of Yanbu II. Nearing completion, Yanbu II has already received over 100 applications for industrial projects within its boundaries. These are currently under review.

14. (SBU) The newly-elected Chamber of Commerce, led by Ibrahim Al Badawi, is eager to find ways to attract FDI to Yanbu. As their spokesman, Fayez Abedeen, put it during his polished powerpoint presentation, "We have the money, you have the technology." This sentiment was echoed at the Royal Commission which said the government plans to spend a total of six billion SAR to attract 56 billion SAR in investment. The government investment comes not just in the creation of the infrastructure necessary for industrial projects, all of which is well planned to create true synergies between the targeted industries, but it also comes in the form of leisure and hospitality services including the development of tourism on many of the natural islands which dot the coast (one island is even being dedicated to preservation as a bird sanctuary).

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Yanbu Chamber of Commerce delivers a pitch -- where the rubber meets the road

15. (U) During the visit, the Chamber of Commerce presented our delegation with a proposal for a project awaiting a partner which the Yanbu "city fathers" are eager to bring to fruition, namely a tire manufacturing plant. Noting the struggling auto industry in the U.S. and the impact declining auto sales must be having on U.S. tire manufacturers, the Chamber offered extremely attractive rent (approximately one dollar per square meter), cheap or free fuel including diesel and gas, water, a factory, and interest-free financing for 20 years if only a company possessing tire manufacturing technology would build a plant in Yanbu. It appears the Yanbu fathers have been in negotiations for three years with Chinese investors who to date have failed to commit. The Chamber further proposed a workshop between local business people (noting they were about to open the first center for business women at the Chamber) and a U.S. delegation which they asked ConGen Jeddah to organize. FCSOff promised to follow up on both requests.

16. (SBU) At a brief stop at the offices of the King Fahd Industrial Port, the director general, Dr. H.A. Al-Saadi, described a major port expansion underway. Currently handling 100 million tons per year, the port plans to expand in tandem with the development of Yanbu II in order to accommodate the increased imports of raw materials and exports of finished products -- including liquid, bulk, and containerized goods and commodities. The port already has the capability to service VLCC ships with 500,000 ton capacity. Officials noted that while Jeddah handles a larger number of ships, most are in the 60-70,000 ton range. Yanbu's port is also better integrated with industrial plants to enable rapid delivery of inbound inputs and loading of exports.

Declining price of oil affecting projects -- ConocoPhillips

17. (SBU) Despite the rosy picture painted by Royal Commission, Port and Chamber of Commerce officials -- all of whom said that Yanbu was weathering the economic downturn without noticeable effect -- the delegation heard a more sobering account at Yanpet, a publicly traded petrochemical company originally formed as a joint venture between Mobile (now Exxon/Mobile) and the gigantic Saudi petrochemical firm Sabic (Saudi Basic Industries). Yanpet president Soliman Alhosain frankly acknowledged the hit that his business and the entire city had taken due to the declining price of oil. He expects the market to remain weak and hesitant for the foreseeable future though he doubts that there will be much of an impact on employment (most of Yanbu's industries are highly automated thus requiring fewer employees than traditional manufacturing plants) or on infrastructure development in the area. Throughout the day, PolEconOff asked about the status of the USD 6 billion, 400,000 bpd capacity ConocoPhillips refinery project which was first announced in May 2008 and was originally scheduled to go on-line in 2013. No one denied the reports that the project was on hold, but the government officials all claimed it was only a question of a need to re-bid the contract with this expected to occur within six months. One explanation for the alleged need to re-bid was that the prices of inputs such as steel have decreased greatly in recent months thus prompting Saudi Aramco, the customer, to demand a lower build price. But Alhosain candidly shared that Aramco had called a halt to the project while they contemplated the worldwide market for refined products and reconsidered whether or not to eventually move forward.

Comment: Yanbu as a potentially attractive investment option

18. (SBU) Yanbu's confluence of good infrastructure, a favorable local investment climate, and leaders committed to facilitating business ventures -- particularly when compared with other more traditional Saudi cities where bureaucracy can test the patience of foreign investors -- will continue to make it an attractive option for U.S. and other foreign investors interested in the Middle East and particularly in long-term Saudi projects. In the current climate, however, it is unclear whether there are any such investors willing to assume the additional risk that these endeavors would entail

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as compared with investments closer to home, and some of our economic contacts say their firms plan simply to "wait out the storm" until the global economy recovers. End Comment.
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